

Message Text

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SUBJECT: EDRC ANNUAL REVIEW OF YUGOSLAVIA, MARCH 12

REF: OECD DOCUMENT EDR(75)5

1. SUMMARY: SECRETARIAT DOUBTS THAT YUGOSLAVIA WILL BE ABLE TO ACHIEVE GROWTH AND BALANCE OF PAYMENTS OBJECTIVES CONTAINED IN OFFICIAL 1975 FORECASTS. MAIN ISSUES FOR DISCUSSION AT ANNUAL REVIEW WILL BE (A) NATURE OF DEMAND MANAGEMENT POLICIES TO BE ADOPTED IN EVENT OF FURTHER WEAKENING OF DOMESTIC DEMAND; (B) POSSIBLE MEASURES TO INCREASE EMPLOYMENT AND ABSORB RETURNING FLOWS OF MIGRANT WORKERS; (C) SCOPE FOR MORE EFFECTIVE USE OF INCOMES POLICIES TO CONTROL INFLATION; AND (D) BALANCE OF PAYMENTS PROSPECTS INCLUDING MEANS OF ACHIEVING EXPORT VOLUME TARGETS AND MEASURES TO DEAL WITH EXPECTED LARGE CURRENT ACCOUNT DEFICIT. REFDOC AIRPOUCHED TO WASHINGTON AND AIRMAILED TO BELGRADE MARCH 3. COMMENTS OR QUESTIONS WOULD BE WELCOME IN TIME FOR
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ANNUAL REVIEW. END SUMMARY

2. GENERAL OUTLOOK: SECRETARIAT ANTICIPATES THAT YUGOSLAVIA MAY HAVE DIFFICULTY IN REPEATING EXCEPTIONALLY GOOD GROWTH PERFORMANCE OF 1974. WEAKNESS OF PERSONAL CONSUMPTION AND DECLINING ENTERPRISE LIQUIDITY MAY COMBINE WITH LOWER THAN EXPECTED EXPORT VOLUMES TO RESTRAIN LEVELS OF ACTIVITY BELOW OFFICIAL 1975 TARGET OF 6 PERCENT GROWTH OF SOCIAL PRODUCT. PRICES ARE OFFICIALLY FORECAST TO RISE 23-24 PERCENT IN 1975, ALTHOUGH SECRETARIAT SEES PROSPECTS OF PRICE STABILIZATION SOMEWHAT IMPROVED OVER 1974 DUE TO LARGE RESERVES OF FOODSTUFFS AND SLOWER RISE OF IMPORT PRICES. MAIN CONSTRAINT ON GROWTH WILL LIKELY BE BALANCE OF PAYMENTS, WHICH SECRETARIAT EXPECTS WILL SHOW DEFICIT ON CURRENT ACCOUNT AT LEAST AS LARGE AS \$1.1 BILLION LEVEL OF 1974. SECRETARIAT CONSIDERS OFFICIAL FORECAST OF 10 PERCENT INCREASE IN EXPORT VOLUMES TO BE TOO OPTIMISTIC IN VIEW OF DEPRESSED LEVELS OF ECONOMIC ACTIVITY IN MAIN TRADING PARTNERS. SIMILARLY IMPORTS MAY GROW FASTER THAN 4 PERCENT RATE OF INCREASE FORESEEN BY YUGOSLAVIA, ASSUMING TARGET LEVEL OF DOMESTIC GROWTH IS TO BE ACHIEVED.

3. POLICY CONSIDERATIONS: SECRETARIAT BELIEVES THAT AN INCREASED PORTION OF DOMESTIC PRODUCTION SHOULD BE DEVOTED TO EXPORTS AND/OR IMPORT SUBSTITUTION. MONETARY POLICY SHOULD AIM AT PROVIDING INCREASED CREDIT TO ENTERPRISE SECTOR TO ENSURE CONTINUATION OF 1974 INVESTMENT UPSWING. ON FISCAL SIDE, SECRETARIAT RECOMMENDS GREATER INVESTMENT IN PUBLIC HOUSING PROJECTS, WHICH WOULD SIMULTANEOUSLY CONTRIBUTE TO PROMOTION OF EMPLOYMENT. SECRETARIAT CONSIDERS OFFICIAL PROJECTION OF 3 PERCENT INCREASE IN EMPLOYMENT TO BE INADEQUATE TO ABSORB EXPECTED RETURN FLOW OF MIGRANT WORKERS FROM ABROAD, OR TO REDUCE DOMESTIC LEVELS OF UNEMPLOYMENT. ON PRICE OUTLOOK, SECRETARIAT SEES LITTLE PROSPECT OF PRICE REDUCTION VIA DEMAND RESTRAINT, AND SUGGESTS THAT EXISTING SOCIAL CONTRACTS SHOULD BE MORE EFFECTIVELY UTILIZED TO ACHIEVE CONTROL OVER PRICES AND WAGES. SECRETARIAT SEEMS TO GIVE TACIT ACCEPTANCE TO LIMITED OFFICIAL USE

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YUGOSLAV AUTHORITIES' VIEW THAT PRICE STABILIZATION MUST BE CONSIDERED AS LONGER-TERM GOAL SUBORDINATE TO INCREASES IN OUTPUT AND PRODUCTIVITY.
TURNER

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